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to the Subcommittee on Agriculture, Rural Development and Related Agencies
Washington, D.C.
March 4, 2004

Introduction

Mr. Chairman and Members of the Committee, I am pleased to highlight the accomplishments of the Grain Inspection, Packers and Stockyards Administration (GIPSA), and to discuss the Fiscal Year 2005 budget proposal.

GIPSA is part of USDA's Marketing and Regulatory Programs, which works to support a competitive global marketplace for U.S. agricultural products. GIPSA's mission is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

GIPSA serves in both service and regulatory capacities. The Packers and Stockyards Programs promote a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries. The Federal Grain Inspection Service provides the U.S. grain market with Federal quality standards, a uniform system for applying these standards, and impartial, accurate grain quality measurements that promote an equitable and efficient grain marketing system. Overall, GIPSA helps promote and ensure fair and competitive marketing systems for all involved in the merchandising of livestock, meat, poultry, and grain and related products.

Organization

GIPSA comprises 737 employees. Grain inspection services are delivered by the national inspection system, a network of Federal, State, and private inspection personnel that is overseen by GIPSA. The system includes 12 GIPSA field offices, 2 Federal/State offices, and 8 State and 58 private agencies that are authorized by GIPSA to provide official services. This network insures the availability of official inspection and weighing services anywhere in the United States. GIPSA also maintains 3 Packers and Stockyards Programs regional offices that specialize in poultry, hogs, and cattle/lamb.

Packers and Stockyards Programs

GIPSA's Packers and Stockyards Programs (P&SP) administers the Packers and Stockyards Act (P&S Act) to promote fair and open competition, fair trade practices, and financial protection in the livestock, meat packing, meat marketing, and poultry industries. The objective of the P&S Act is to protect producers, growers, market competitors, and consumers against unfair, unjustly discriminatory, or deceptive practices that might be carried out by those subject to the P&S Act. To meet this objective, GIPSA seeks to deter individuals and firms subject to the P&S Act from engaging in anti-competitive behavior, engaging in unfair, deceptive, or unjustly discriminatory trade practices, and failing to pay livestock producers and poultry growers. GIPSA initiates appropriate corrective action when there is evidence that firms or individuals have engaged in anti-competitive, trade, payment or financial practices that violate the P&S Act.

The livestock, meatpacking, and poultry industries are important to American agriculture and the nation's economy. With only 166 employees, GIPSA regulates these industries,

estimated by the Department of Commerce in FY 2002 to have an annual wholesale value of \$118 billion. At the close of FY 2003, 5,287 market agencies and dealers, and 2,067 packer buyers were registered with GIPSA. In addition, there were 1,429 facilities that provided stockyard services, with an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 128 poultry firms running 202 poultry complexes operating subject to the P&S Act.

Our regulatory responsibilities are the heart of our mission to administer the P&S Act. To this end, GIPSA closely monitors practices that may violate the P&S Act. Our top priority continues to be investigating complaints alleging anti-competitive, unjustly discriminatory, or unfair practices in the livestock, meat, and poultry industries. Last year, GIPSA conducted over 1,700 investigations. As a result of these investigations, the Packers and Stockyards Programs helped restore over \$27 million to the livestock, meatpacking, and poultry industries. While this is not the largest amount GIPSA has ever reported to Congress, it constitutes more than the amount that P&SP received in appropriated funding.

GIPSA divides its regulatory responsibilities into three areas: financial protection, trade practices, and competition. In the area of financial protection, GIPSA continued to provide payment protection to livestock producers and poultry growers in a year where the livestock, meatpacking, and poultry industries faced tremendous financial pressures. Financial investigations last year resulted in \$3.2 million being restored to custodial accounts that are established and maintained for the benefit of livestock sellers. Livestock sellers recovered over \$1.5 million under the P&S Act's packer trust provisions. During FY 2003, 55 insolvent dealers, market agencies and packers corrected or reduced their insolvencies by \$6.6 million. In addition,

GIPSA's financial investigators analyzed more than 400 bond claims exceeding \$7 million. However, GIPSA has no statutory authority to compel payment by the trustee or bond surety.

In its Trade Practices Programs, GIPSA continued to promote fair trading between industry participants. Much of GIPSA's work in the Trade Practices Program focuses on insuring accurate weights and prices. GIPSA continued to work with local states weights and measures programs to provide scale training and to secure testing of every scale used to weigh livestock or live poultry twice a year. In addition, GIPSA initiated or completed 41 investigations of weight and price manipulation of livestock. Some of these investigations are on-going. GIPSA also investigated the operations of 143 live poultry dealers; most of these investigations examined whether live poultry dealers were in compliance with contracts entered into with poultry growers. With members of the regulated industries, we developed industry standards on new technologies that are entering the marketplace to evaluate and price livestock purchased on a carcass merit basis. We anticipate implementing two more voluntary standards in the next six months.

GIPSA continues to develop its Competition Program. During FY 2003, the Competition Branch began or continues evaluations of 31 complaints regarding attempted restriction of competition, failure to compete, buyers acting in concert to purchase livestock, apportionment of territory, unlawful price discrimination, and predatory pricing. Of these complaints, one firm was brought into compliance, and a second firm went out of business. Six of the investigations revealed that the concerns raised were not supported by evidence. 23 complaints were still pending at the end of the Fiscal Year. GIPSA continues to work closely with the CFTC, attending CFTC Commissioner briefings on the cattle, hog, and meat markets.

GIPSA's Rapid Response Teams remain a powerful tool to address urgent industry issues that place the industries in imminent financial harm. Last year, GIPSA rapid response teams investigated 59 situations across the nation. During FY 2003, these rapid response investigations contributed to returning \$5.9 million to livestock producers and poultry growers at a cost of \$413,010 in salary and travel expenses.

GIPSA continues to work with violating firms to achieve voluntary compliance, and GIPSA continues to initiate appropriate corrective action when we discover evidence that the P&S Act has been willfully violated. During FY 2003, GIPSA, with assistance from the Office of the General Counsel, filed 22 administrative or justice complaints alleging violations of the P&S Act. This number, similar to last year, represents more than a 50 percent increase over the number of complaints filed in FY 2001.

To ensure that producers and growers are aware of the protections the P&S Act provides, the Agency provides a hotline (1-800-998-3447) by which stakeholders and others may anonymously voice their concerns. Last year GIPSA responded to and investigated issues raised by 88 callers. These calls were in addition to calls received in our regional offices. GIPSA also increased its outreach activities. GIPSA conducted 28 orientation sessions for new auction market owners and managers and 4 feed mill orientations to educate them about their fiduciary and other responsibilities under the P&S Act.

It is important to note some of the activities that GIPSA has been engaged with in recent months. Following the discovery of the bovine spongiform encephalopathy (BSE) positive cow in December, 2003, GIPSA created Financial Protection, Trade Practices and Competition Task Forces to provide protection to livestock producers and members of the cattle industry commensurate with its authority under the Packers and Stockyards Act. These task forces are

based in Denver, Colorado, GIPSA's cattle office, and include technical experts from each of GIPSA's regional offices and headquarters. The task forces have developed strategies to identify and respond to potentially unlawful practices unique to current market conditions. Daily Agency-wide meetings are being held to inform and share all BSE related information so that employees, task forces, and headquarters are all current on the latest issues.

GIPSA's Financial Protection Task Force is monitoring livestock markets for financial failures. The Task Force has identified scheduled sales at auction markets that were cancelled in the days and weeks following the BSE announcement. It's monitoring firms likely to be more vulnerable to impacts of the BSE incident, identifying industry changes in payment practices, and standing ready to deploy rapid response teams to investigate financial concerns in the industry. GIPSA is currently conducting several investigations of particularly financially vulnerable firms.

GIPSA's Trade Practices Task Force is reviewing changes in marketing and procurement practices implemented by packers in response to the BSE incident. GIPSA has been in contact with major packers and industry groups to stay current on packer responses. GIPSA is reviewing notices sent by packers to livestock producers informing producers of purchasing and pricing changes implemented as a result of BSE. GIPSA has received complaints from producers who claim that packers have changed the payment terms of their contracts and has deployed rapid response teams to investigate these complaints.

GIPSA's Competition Task Force is analyzing, and when warranted, investigating cattle markets when anti-competitive practices may be occurring. Several investigations have been initiated. The Competition Task Force analyzes reported fed-cattle prices in various geographic markets to identify abnormal patterns that may indicate violations of the P&S Act. The task force assesses

whether price differences are the result of normal market forces, or packer behavior that may violate Section 202 of the P&S Act. When normal market forces fail to explain abnormal prices, the Competition Task Force conducts a rapid response investigation to determine whether the P&S Act has been violated.

GIPSA has also communicated with the Commodity Futures Trading Commission (CFTC), the Agricultural Marketing Service, Food Safety and Inspection Service, the Animal and Plant Health Inspection Service, and local and State governmental organizations to discuss issues and coordinate plans. GIPSA attends CFTC's surveillance meetings and is prepared to work with CFTC on any investigation that may involve a potential violation of the P&S Act. GIPSA is actively responding to the BSE incident and is prepared to continue enforcement of the Packers and Stockyards Act and regulations in light of this situation.

In addition, this year GIPSA made significant progress on the Livestock and Meat Marketing Study for which Congress appropriated \$4.5 million in FY 2003. The study will look at issues surrounding a ban on packer ownership. GIPSA, through APHIS, is in the process of contracting out the study. Since packers' use of non-spot arrangements is intertwined with other advance marketing arrangements throughout the supply chain, the study has a broad focus.

The issues addressed by the study are complex. The research is expected to involve several academic disciplines, varied research methods, and large amounts of data that are not already available. Business schools, economics departments, and agricultural economics departments at universities have indicated an interest in bidding, as have consulting firms. GIPSA expects to see collaborations of disciplines in the bids.

Contractors are expected to complete the study in phases over 2 years, with the first reports due 1 year after contract award. Some descriptive findings will be released prior to

completion of the analytical parts of the study. Information about the study, including the *Federal Register* notice, the public comments, and RFP notices, is available on GIPSA's website at: www.usda.gov/gipsa, by following the "marketing study" icon.

Also in FY 2003, GIPSA completed development of the Swine Contract Library as an internet application that meets the requirements of the Livestock Mandatory Reporting Act of 1999's amendments to the Packers and Stockyards Act. Packers are required to file swine purchase contracts with GIPSA, and monthly reports about the number of swine expected to be delivered, under contract, to packers.

The Swine Contract Library includes information from swine packing plants with a slaughter capacity of 100,000 swine or more per year. 31 firms operating 51 plants accounting for approximately 96 percent of industry slaughter are subject to the SCL. GIPSA has received over 530 contracts to date. In the first two months of operation, the SCL recorded more than 1400 hits. Through the SCL, producers have the ability to see contract terms, including, but not limited to, base price determination formula and the schedules of premiums or discounts, and packers' expected annual contract purchases by region.

The Swine Contract Library went live with information on contract provisions available to the public in early FY 2004, and is available on the GIPSA web site at <http://www.usda.gov/gipsa/>.

Federal Grain Inspection Service

GIPSA's Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain in domestic and international markets by providing the market with services and information that effectively and accurately communicate the quality and quantity of grain being traded. GIPSA administers its inspection and weighing programs under the authority of the U.S. Grain

Standards Act, as amended, and the Agricultural Marketing Act of 1946 (AMA) as it relates to the inspection of rice, pulses, lentils, and processed grain products.

Providing reliable, high quality inspection and weighing services at a reasonable price remains a key commitment of GIPSA and the State and private officials comprising the official inspection system. Federal export inspection services average \$0.30 per metric ton, or approximately 0.23% of the \$14 billion value of U.S. grain exports. In fiscal year 2003, more than 1.8 million inspections were performed on more than 222 million metric tons of grains and oilseeds. Over 84,000 weighing certificates were issued on 91.5 million metric tons of grain.

There have been many changes in official inspection services over the past several years to respond to changing market demands. GIPSA has programs and services in place to facilitate the loading of shuttle trains; to address greater product differentiation; and to provide customers with inspection results electronically. These all represent steps in the right direction, but we recognize that the market is changing daily and we must change with it to remain relevant.

GIPSA is focusing on a number of key areas to better facilitate the marketing of U.S. grain. We are enhancing our international outreach capabilities to remove obstacles to U.S. grain reaching world markets. We are bringing standardization to domestic and international markets. We are focusing on providing the market with the information it needs on the end-use functional quality attributes of grain that determine its true value in an increasingly quality-specific market. We are improving service delivery, and the efficiency and cost-effectiveness of the official system.

International outreach is one component of our efforts to facilitate the marketing of U.S. grain. We will continue to expand our outreach efforts to support market development around

the world. Our international customers are making great use of the wide array of recently produced multimedia educational materials.

In recent years, we have significantly expanded our outreach efforts to ensure open markets for U.S. grain in Asia and Mexico. Last year, GIPSA initiated two 3-month regional assignments, one in Asia and one in Mexico, to address immediate and long-term grain marketing issues in each region. In Mexico, GIPSA has worked extensively with APPAMEX (an organization of Mexican grain importers), the USDA/Foreign Agricultural Service (FAS), and USDA cooperator organizations to address Mexico's concerns about U.S. grain quality. We have conducted in-depth grain grading seminars to educate Mexican buyers, traders, and end users on the U.S. grain marketing system, GIPSA's impartial grain quality assessment, and U.S. grain standards, sampling procedures, and inspection methods. In fiscal year 2003, GIPSA also helped several of Mexico's private sector grain elevators and processing facilities set up grain inspection laboratories mirrored after GIPSA's. Last fiscal year, we also worked with Mexican and Canadian officials to secure a trilateral agreement on implementation of the Biosafety Protocol.

Our international outreach program also includes technical consultative services for international customers. In FY 2003, GIPSA responded to 17 requests for technical assistance from exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments.

Our international outreach are not the only initiatives we have underway to improve the standardization of, and in turn, facilitate marketing in, domestic and international markets. In the biotech arena, GIPSA is helping bring standardization, consistency, reliability, and accuracy to the biotech testing entities and tools used by the market. GIPSA's test kit evaluation program

validates the performance of rapid tests for biotechnology-derived grains and oilseeds. Our Proficiency Program improves the performance and reliability of government and private laboratories in the United States and worldwide that test for biotechnology-derived grains. Under this voluntary program, participants are evaluated based on results of their quantitative and/or qualitative testing of samples of all commercially available corn and soybean biotechnology events. More than 88 organizations participated in the program in fiscal year 2003, a threefold increase from 22 organizations in February 2002.

In FY 2002, GIPSA established formal research collaboration with the National Institute of Science and Technology (NIST) to investigate DNA-based testing for biotechnology-derived grains and oilseeds, and to investigate the development of reference materials and methods for DNA-based testing. Using information obtained through confidentiality agreements with life science organizations, GIPSA and NIST produced event-specific plasmids for evaluation as reference materials and potentially to be in the development of reference methods. In FY 2003, GIPSA and NIST hosted a workshop entitled “Standard Reference Materials for Biotechnology Crops.” Thirty-six representatives from the life science organizations, testing laboratories, test kit manufacturers, food processors, Canada, European Union, and Japan attended.

In FY 2004, GIPSA will continue to collaborate with NIST to investigate challenges associated with Polymerase Chain Reaction (PCR) technology and develop reference materials to improve the reliability and accuracy of DNA-based testing and to harmonize testing on a global basis, and will continue to work with NIST to establish global agreement on the development of reference materials for biotechnology-derived grains and oilseeds.

Our market facilitation efforts also include bringing standardized information to markets. In 1999, wheat importers and exporters asked GIPSA to declare that the U.S. does not produce

transgenic wheat. In September 1999, GIPSA began, in accordance with the authority provided under the U.S. Grain Standards Act (7 U.S.C. 79), issuing the following letterhead statement upon an applicant's request: *"There are no transgenic wheat varieties for sale or in commercial production in the United States."* The potential deregulation of Round-Up Ready wheat added potential uncertainty to world markets. Wheat industry representatives anticipate that continued issuance of the current statement will be essential to ensure the continued marketing of U.S. wheat. To facilitate the marketing of U.S. wheat if deregulation occurs, GIPSA has agreed to continue issuing the non-transgenic wheat statement, upon request, provided that Monsanto meets several requirements verifying that seed has not been sold for commercial production.

GIPSA also continues to ensure that the official U.S. standards are responsive to the needs of the domestic marketplace. Developments in plant breeding, the use of new marketing strategies such as identity preservation, increasingly complex processing, food manufacturing, and feed formulation, and other factors will continuously challenge GIPSA to promote current, market-relevant grades and standards that reflect required quality characteristics for specific end uses. In FY 2003, GIPSA proposed creating two subclasses in the class Hard White wheat, which would differ based on seed coat color. Seed coat color can be an important quality factor depending on the target flour product and the miller's flour extraction goal. Also underway are reviews of the soybean standards with a focus on test weight, and the sorghum standards to clarify the various class definitions and to revise the definition of non-grain sorghum.

Working closely with barley producers and the barley malting industry, GIPSA began developing new official criteria called "Injured-by-Sprout" in malting barley. Sprouting occurred in barley in the U.S. Northern Plains region during 2002, which prevented malting barley production contracts from being honored. Barley producers' insurance claims also were denied

because official procedures to assess barley sprout damage differ from those used by the malting industry. GIPSA's response is facilitating the marketing of malting barley by enabling USDA's Risk Management Agency to implement the new procedure for the 2004 barley crop year.

Other standards enhancements undertaken to facilitate marketing in FY 2003 include amendments to the U.S. Standards for Rice to establish and add "hard milled" rice as a new milling degree level and to eliminate the reference "lightly milled." These changes better align the GIPSA standard with current industry processing and marketing standards.

GIPSA knows that customers also need more information about the specific end-use qualities of the products they are purchasing. We are focusing on providing rapid testing of end-use functionality factors to differentiate the functional qualities that meet specific end-use needs.

GIPSA continues cooperative efforts with groups from Canada, Australia, and several European countries to develop and evaluate global artificial neural network (ANN) near-infrared transmittance (NIRT) calibrations for wheat and barley protein. GIPSA conducted a field study on current partial least squares (PLS) wheat protein calibrations and the global ANN calibration. GIPSA also evaluated the field performance of the ANN barley protein calibration. In FY 2004, GIPSA will finalize individual instrument standardization procedures to support implementation of an ANN calibration for wheat and barley protein.

In April 2003, GIPSA convened a meeting of leading North American wheat researchers to generate new avenues of research that would lead to rapid tests for wheat end-use functional characteristics, applicable at the time of inspection and at other points in the value chain. Participants developed a list of quality factors and possible technical approaches for measuring them, with the overarching goal of having a market applicable test ready for use by May 2006. To help keep researchers focused on the task, GIPSA will establish a virtual discussion room for

researchers to further collaboration on and support for this effort, and to help researchers find extramural grant sources.

GIPSA is working with the United Soybean Board on their “Better Bean Initiative,” a program directed at improving the nutritional composition of U.S. soybean meal and oil. USDA/ARS currently is receiving funding to develop measurement technology for meal and oil. GIPSA is taking part in the Soybean Quality Trait initiative that is seeking to standardize soybean protein, oil, moisture, and fatty acid measurements. GIPSA is part of an inter-laboratory collaborative study to evaluate the consistency of soybean protein, oil, and moisture reference methods. GIPSA is also helping to assemble a soybean sample library suitable for use in developing and evaluating near-infrared (NIR) calibrations.

GIPSA is also exploring new approaches to compliment and supplement our traditional array of services. In FY 2003, GIPSA continued developing a process verification service for grains in response to market demand.

Our efforts to develop new programs did not preclude us from making significant improvements to existing ones. During FY 2003, GIPSA revised the regulations on reinspections and appeal inspections under the U.S. Grain Standards Act to better reflect market needs and to remove an inefficient, costly, and unnecessary regulatory requirement. Previously, reinspections and appeal inspections for grade included a review of all official factors that may determine the grade, are reported on the original certificate, or are required to be shown. The revised regulations allow interested parties to specify which official factor(s) should be redetermined during the reinspection or appeal inspection service. To safeguard against inadvertent misgrading, official personnel may determine other factors, when deemed necessary. In FY 2004, GIPSA plans to propose a similar action for rice and pulses and other commodities

that are inspected for quality factors under the authority of the Agricultural Marketing Act of 1946.

Improving service delivery is essential, as is improving the efficiency and cost-effectiveness of the official system. This will include many initiatives, ranging from harnessing technology to improve operational efficiency and service delivery to making needed program policy changes.

In addition, GIPSA has dedicated resources to homeland security efforts. GIPSA continues to work closely with the USDA Office of Crisis Planning and Management (OCPM) to refine the Department's and the Agency's Continuity of Operations Plan (COOP) and to support and staff the Department's Crisis Action Team (CAT). In FY 2003, GIPSA's COOP and CAT representatives participated in numerous USDA and Marketing and Regulatory Program-sponsored disaster-related exercises and training sessions. They also completed the GIPSA Supplement to the USDA Headquarters COOP Plan, which provides guidance for the continuation/ reestablishment of GIPSA's COOP essential functions, including identifying GIPSA's emergency relocation facilities where these functions will be performed and GIPSA personnel who will be required to perform them. The provisions of the GIPSA Supplement, which mirrors the USDA Headquarters COOP Plan, applies only to GIPSA headquarters offices in Washington, D.C.

GIPSA provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the National Grain and Feed Association Safety Committee, the Security Analysis System for U.S. Agriculture (SAS-USA) Technical Advisory Committee, the Interagency Food Working Group, and the USDA Homeland Security Working Group. The Agency is currently working with the National Food Laboratory Steering

Committee to coordinate and integrate resources to support the key components of the Food Emergency Response Network (FERN).

GIPSA also continued to face challenges in maintaining an appropriate operating cushion in its user fee account. During FY 2003, GIPSA transferred \$2 million from our appropriated account to preclude fiscal over-obligation in violation of the Anti-Deficiency Act. As of May 31, 2003, the cash balance of GIPSA's user fee account had fallen to \$2.9 million, a dangerously low amount considering GIPSA's monthly obligations of about \$3.0 million.

Due to flat or decreasing exports, and marketing trends that are reducing revenue generated by our current fee structure, there has been a persistent gap between costs and revenue. GIPSA has absorbed losses in its reserve user fee funds. GIPSA has executed many cost-cutting measures to reduce obligations. The Agency has cut employment levels, closed field and sub-offices, streamlined support staffs, and introduced new technology to improve program efficiency.

In the longer term, GIPSA is pursuing several options to preclude future funding difficulties, including implementing a new fee schedule. Program efficiencies, such as streamlining the official inspection processes using a web-based technology and re-engineering program delivery, and opening discussions with stakeholders on how and by whom official inspection services should be delivered to American agriculture were undertaken.

2005 Budget Request

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for Fiscal Year 2005 is \$44.1 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. There is an increase of \$662,000 for employee compensation. GIPSA already submitted legislation last fall which would collect \$29.0 million in new user fees in FY 2005, \$5.8 million for the grain standardization activities and \$23.2 million for the Packers and Stockyards Programs. A substantial portion of the IT increases will be one-time only requests.

For grain inspection, the President's FY 2005 budget proposes a current law request of \$20.0 million; a total increase of \$1.8 million.

An increase of \$1,300,000 would allow GIPSA to merge data from several Agency computer information systems for efficient oversight and management of the official grain inspection system and to provide on-demand, Web based access to this data by our partners, customers, and GIPSA personnel. Management needs a single source to capture information about each inspection provided to track work accomplishment, technical analysis, and compliance verification. With the information reported, GIPSA will be able to automate the generation of billings records that will be used by the NFC FFIS to generate the invoice for each customer. GIPSA will also use the data system to automatically document and generate a statement of fees owed by each customer on a monthly basis.

By implementing this application, GIPSA will be able to retire two Unix applications and the computer equipment that it runs on. Retiring these Unix applications will allow GIPSA to move towards achieving its goal of a common computing environment within and between FGIS

and P&SP, free up one half of a staff year required today for support, and eliminate dependency for support of this application to a single developer.

Also requested is \$500,000 to expand GIPSA's technical outreach in key international markets, which is required because GIPSA has experienced a growing demand for cooperative participation with other agencies with international trade responsibilities – for example, State Department, U.S. Trade Representative (USTR), Foreign Agricultural Service (FAS), and the Animal and Plant Health Inspection Service (APHIS) – toward achieving our overall mutual objective of expanding markets for agricultural products and removing barriers to trade.

Modern biotechnology has presented new challenges to U.S. grain markets as many countries develop domestic regulations regarding biotech grains. GIPSA has served the international grain trade community by developing programs to address these emerging needs, and working with related agencies – State, USTR, FAS, and APHIS, among others – to share information regarding these programs and contribute our expertise. For example, China announced broad biosafety regulations 2 years ago that continue to threaten U.S. soybean exports. Partner agencies have sought GIPSA's active participation in negotiations challenging this technical barrier to trade. Such issues are likely to increase in number and frequency in the future.

As another example, a new international environmental treaty, the Biosafety Protocol, which entered into force in September 2003, requires new documentation on biotech grain shipments, and many countries already are developing regulations that are unnecessarily trade-disruptive. During the years ahead, it will be essential for GIPSA to continue in what has been its integral role in an interagency process for implementation of the Protocol by contributing expertise in grain handling, transportation, and marketing, to prevent unnecessary trade

disruption.

The funding increase will enable GIPSA to provide personnel on overseas temporary duty to better address and resolve grain trade issues, precluding market disruption due to technical differences in analytical methods and standards; expand U.S. market share due to increased customer satisfaction; and continue to provide critically important technical support as the U.S. government seeks to ensure practical implementation of new regulatory requirements being developed by a growing number of trading partners.

For the Packers and Stockyards Programs, the President's FY 2005 budget proposes a current law request of \$24.2 million; a total increase of \$3.81 million.

An increase of \$1,460,000 for the development of web applications which is required because the current database and application architecture will not support the volume, security, or recovery requirements of GIPSA and USDA as GIPSA moves to support GPEA and OMB and USDA eGov initiatives. Further, the Enterprise Architecture project completed in 2003 identified fifteen (15) business functions that are not supported by any applications within the Packers & Stockyards Programs area, seven (7) of those being key business functions. In addition, the current applications lack integration on the information that is common between the applications, hence requiring duplication (albeit minimal) information entry by program users.

To enable the timely implementation of customer-centric applications within the Packers and Stockyards Program, additional Information Technology developmental resources are required. Currently the Packers and Stockyards Program does not have the web designers or programmers that would allow it to rapidly and accurately deploy Web-based applications. To supplement the current information technology staff and to bring new technology into the program area, GIPSA is requesting contracting funds.

These funds would be used to contract-out the design, development, implementation, and maintenance of important Web initiatives as identified as part of GIPSA's overall Enterprise Architecture and approved by USDA's OCIO. For example, with the requested funding, entities regulated under the Packers and Stockyards Act would be able to register with GIPSA via the internet, electronically file annual reports, and submit bond claims and complaints via the internet. GIPSA would be able to increase its efficiency by electronically verifying bond and trust accounts with banks, the integration of three stove piped applications, and the real-time tracking of the status and cost of an investigation. (The submission of annual reports alone would save GIPSA over 1,500 hours annually by personnel that are GS14s and 15s.) This would allow the Resident Agents to complete an additional 200 investigations in the future.

An increase of \$150,000 is required to operate and maintain the Swine Contract Library (SCL), which is one of GIPSA's Packers and Stockyards Programs' (P&SP) first e-government initiatives. As such, GIPSA has developed an Internet web site that offers packers the opportunity to submit their contracts and anticipated number of hogs procured under contract to GIPSA via a secured connection and producers the opportunity to view contract information via the Internet.

The funding increase will be used to operate and maintain the SCL system. This position will monitor, review, and analyze the contract information and monthly reports submitted by packers, ensure that packers are in compliance by examining submissions for completeness, consistency, and accuracy, conduct confidentiality analysis on information before release, and make the information available at the P&SP regional office and on the GIPSA web site. The increase will also fund Information Technology services and the annual renewal cost for computer software licenses. This IT position will provide software, hardware, and web site

maintenance for the SCL program.

An increase of \$1,200,000 to support fair and transparent product differentiation and valuation which is required because packers significantly reduced the numbers of livestock purchased based on live weight in recent years. In a stated effort to better meet consumer demand and provide greater “value,” packers and producers began trading livestock through contract and marketing agreement or formula-priced transactions. In conjunction with this change in marketing methods, packers explored and began using new means of automating the evaluation of live cattle and hogs, and carcasses based on new technologies, including among other methods, ultrasound and photographic imaging.

Technologies and their applications for evaluating the quality of both live animals and carcasses are changing at an accelerating pace. Previously, carcass merit purchases were generally based on a carcass weight and often one or two grades assigned by USDA graders. Today, packers increasingly rely on internally assigned measures of carcass quality using modern and complex technologies.

Live poultry dealers, as well, are exploring new technologies to assist in evaluating the quality of birds obtained from poultry growers. Implementation of new technologies in the poultry industry may supplement or replace the current methods used by live poultry dealers to determine bird quality and payment to growers, including contract growers.

The technologies now being implemented by packers have a direct effect in determining the prices paid to producers for livestock. Technologies being developed by live poultry dealers will likely affect prices paid to poultry growers. These changes introduce new risks for producers and growers, because these new technologies are not standardized and their accuracy is inconsistent.

This lack of standardization and inconsistent accuracy makes it difficult for producers and growers to detect errors and deliberate changes in the way the technology is used, leaving producers and growers vulnerable to unfair and unjustly discriminatory practices by members of the meat packing and poultry industries. A change that affects as little as one half of one percent of the value of livestock in a multi-billion dollar industry can have a huge impact on producers and growers over time. Therefore, P&SP needs to dramatically increase its monitoring and regulatory presence.

This increase in funding will provide P&SP ongoing funding to obtain industrial engineering expertise in the operation of these new electronic evaluation technologies and the methods in which packers and live poultry dealers use them; to develop enforcement tools, investigation techniques and regulatory policies necessary to continue to effectively regulate the meat packing and poultry industries, and when appropriate, initiate enforcement action; to educate and inform the meat packing and poultry industries about responsibilities under the P&S Act with regard to these new technologies; and to educate and inform livestock producers and poultry growers about how the electronic evaluation technologies are used in the meat packing and poultry industries, and how the technologies are regulated by P&SP.

An increase of \$1,000,000 is required because immediately following the announcement that a U.S. cow tested positive for BSE, P&SP created task forces to provide protection to livestock producers and members of the cattle industry. These task forces are developing strategies to identify and respond to anti-competitive practices unique to current market conditions; monitor markets for financial failures and investigate any livestock sale barn or slaughtering facility that closes to ensure that any unpaid cattle sellers are identified and appropriately compensated and investigate complaints related to livestock marketing and

procurement contracts.

P&SP regulates 1,429 posted stockyards, 5,287 market agencies and dealers, 2,067 packer-buyers, and 340 bonded packers (those purchasing over \$500,000 worth of livestock per year). An additional group of packers that purchase less than \$500,000 are also subject to P&SP jurisdiction. A large number of these entities may be adversely impacted as the BSE situation develops, creating circumstances that require immediate P&SP action.

P&SP is developing strategies to identify anti-competitive practices that could occur as a result of current market conditions. These strategies will be implemented and appropriate responses will be initiated where anti-competitive conduct is suspected.

P&SP is looking closely at suspect livestock transactions to ensure that market participants are not taking advantage of the unique market conditions created by the BSE situation. P&SP will deploy rapid response teams to investigate BSE-related complaints. Costs for rapid response investigations related to BSE could easily exceed amounts typically expended on all other rapid response investigations. In the past three fiscal years, P&SP spent \$1,372,210 conducting 150 rapid response investigations, or an average of 50 investigations per year at a cost of \$457,403.

An increase of \$1,200,000 will allow the Agency to establish computer industry standard hardware, software, and facilities to implement the development of customer oriented electronic interfaces to the Federal Grain Inspection Program and the Packers and Stockyards Program. This will allow for a common Information Technology environment for the receipt and delivery of electronic data necessary to efficiently conduct the Agency's programs.

These capabilities will by necessity need to be closely integrated with the existing Information Technology Architecture in GIPSA and conform to the USDA Enterprise

Architecture. The computer equipment will be composed of multiple, high performance servers which must accommodate the transfer of very large amounts of data securely and transparently between themselves and the existing Agency information systems. These computer servers must be developed to have the capability to implement a wide range of Web based interactive applications.

Finally, an increase of \$1,000,000 is needed because in order to bring the Information Technology Systems security up to an acceptable level within GIPSA, the Agency's network infrastructure must be brought up to the standards as depicted in the USDA Enterprise Architecture. The Agency will need to add network switches, routers and firewalls to bring the network infrastructure up to an acceptable security standard. To insure thorough security planning, the Agency will need funding for additional contractor support in the development of disaster recovery plans, continuity of operations plans, risk analysis, and the certification and accreditation of existing information systems.

Conclusion

Mr. Chairman, Members of the Committee, I would like to conclude my testimony on the Fiscal Year 2005 budget proposal for the Grain Inspection, Packers and Stockyards Administration with an observation.

Technological advances in new products and in business practices create remarkable opportunities and challenges for producers, marketers, and consumers. GIPSA is uniquely situated to facilitate the marketing of products at a time when assurances of product content or production processes are in demand. Further, GIPSA helps ensure that market power by some is not abused. Responding effectively to the needs of our stakeholders requires dynamic activity.

We continue to adapt our efforts, look toward our capabilities, work to understand and accommodate the changes, and serve American agriculture through our efforts to ensure a productive and competitive global marketplace for U.S. agricultural products.

I would be pleased to address any issues or answer any questions that you may have.

Thank you.